



STATE OF MICHIGAN

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DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

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Report On Insurance Regulatory Fees

Fiscal Year Ended September 30, 2012

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Introduction

Insurers pay the cost of regulation in Michigan through an annual fee that is assessed by the Office of Financial and Insurance Regulation (OFIR) called the Insurance Regulatory Fee. Authority to assess, collect and deposit the Insurance Regulatory Fee into a restricted revenue account in a restricted purpose fund was enacted by 1994 PA 228. Section 224(4) requires insurers to pay the Insurance Regulatory Fee instead of reimbursing OFIR for the direct costs and expenses of regulation incurred by each insurer.

The enactment of this assessment method benefits both insurers and OFIR as it provides OFIR a constant funding source to pay for its insurance regulatory activities, and it eliminated the cyclical nature of the cost of regulation to the insurers. Fees collected and deposited into this fund are only to be spent on insurance regulatory purposes under the Commissioner's authority, pursuant to a legislative appropriation. Unspent money remaining in this fund does not lapse to the State's general fund; it carries forward to the next fiscal year pursuant to MCL 500.225. The ending balance of the Insurance Regulatory Fee Fund at the close of fiscal year 2012, September 30, 2012, and carried forward to fiscal year 2013 was \$5,679,381.85.

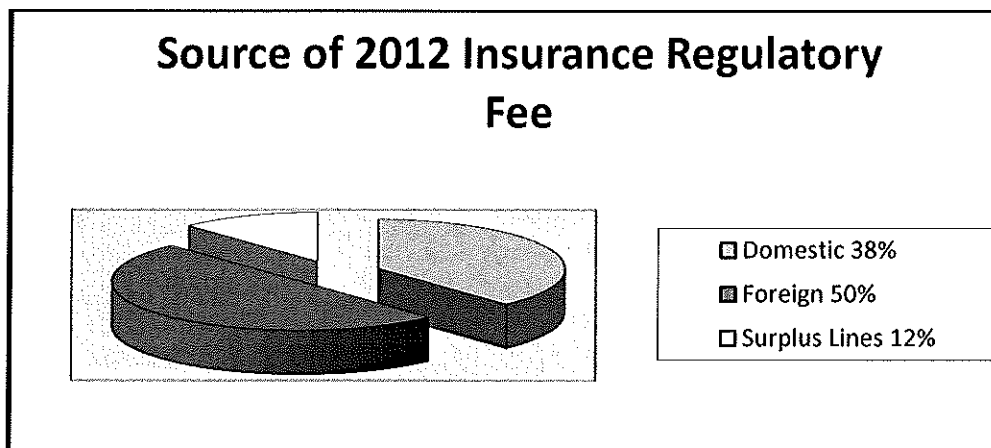
Purpose of the Report

This report covers Fiscal Year 2012, the period from October 1, 2011 through September 30, 2012. MCL 500.224a specifies that annually, beginning June 1, 1995, the Commissioner shall report to the Senate and House of Representatives standing committees on insurance issues regarding the following information:

- The amount of revenues raised by the Insurance Regulatory Fee.
- How the regulatory fee collection was spread among domestic, foreign, and alien insurers.
- How the fees were spent in regulating the domestic, foreign, and alien insurance industry.
- Whether new regulatory policy is needed to better protect the citizens of Michigan.

Insurance Regulatory Fee Revenue

The Insurance Regulatory Fee revenue actually collected by OFIR in Fiscal Year 2012, 10/1/2011 to 9/30/2012 was \$21,707,957.82. The amount includes assessments for 2012, as well as any past due from 2011 or earlier years.



Michigan's domiciled insurers paid 38% of the total Insurance Regulatory Fee or \$8.1 million. The foreign insurers, domiciled in a state other than Michigan, paid 50% of the total or \$10.9 million, while the surplus lines insurers paid 12% or \$2.7 million of the Insurance Regulatory Fee.

Expenditures Funded with the Insurance Regulatory Fee

Statutory Expenditure Limitation

Pursuant to MCL 500.224(4)(a)(v), the total Insurance Regulatory Fee shall not exceed 80% of the gross appropriation for OFIR's insurance regulatory operations for a fiscal year. This is calculated as the difference between the gross appropriation for the insurance operations for the fiscal year and any restricted revenues, other than the regulatory fee itself as identified in the gross appropriation. This statutory requirement was met by OFIR as the Fiscal Year 2012 gross insurance regulatory appropriation was \$30,127,571 and the Insurance Regulatory Fee restricted revenue was 74% or \$22,378,600. The percentage is calculated by dividing the total insurance bureau fund fee source appropriation (\$22,378,600) by the total gross appropriation of all insurance fund sources (\$30,127,571). The amount of \$22,378,600 represents the insurance bureau fund fee source (regulatory assessment fees) appropriated in the 2012 budget.

Fiscal Year 2012	
Calculation of Statutory Limitation on Appropriated Insurance Regulatory Fee	Amount
Restricted Revenue Appropriated to Fund Insurance Regulatory Operations:	
Insurance Continuing Education Fees	\$ 1,072,400
Multiple Employer Welfare Arrangement Fees	\$ 72,600
Captive Insurance Fees	\$ 267,400
Insurance Regulatory Fee	\$ 22,378,600
<u>Insurance Licensing and Regulation Fee</u>	<u>\$ 6,336,571</u>
Gross Fee Appropriation for Insurance Operations	<u>\$ 30,127,571</u>
Gross Appropriation X 80% = Ceiling	\$ 24,102,057
<u>Less: Insurance Regulatory Fees Appropriated</u>	<u>\$ 22,378,600</u>
Excess Statutory Ceiling Over Appropriated Insurance Regulatory Fee	\$1,723,457

Qualified Expenditures

Limitation

Expenditures funded by the Insurance Regulatory Fee in Fiscal Year 2012 totaled \$20,510,822. MCL 500.224(5) requires that not less than 67% of the Insurance Regulatory Fee revenue be spent

on the regulation of financial conduct, health care, and health insurance for persons under the Commissioner's authority in Michigan. The percentage of qualifying financial conduct, health care and health insurance expenditures in Fiscal Year 2012 was 80% or \$16,356,361 of the total expenditure, thus meeting the statutory requirement on expenditures from the fund.

New Insurance Regulatory Policy

The mission of the Michigan Office of Financial and Insurance Regulation (OFIR) is to provide a regulatory climate that promotes a financial services industry that is safe, sound and entitled to public trust and to provide consumer protection and education services.

In 2011, R. Kevin Clinton became the new Commissioner of OFIR. In addition to his first priority of insuring that Michigan's financial institutions remain sound, he led an effort to eliminate burdensome regulations that were preventing Michigan industries from growing. To this end the Commissioner was appointed by the Governor to the Insurance and Finance Advisory Rules Committee (ARC) which was created by the Office of Regulatory Reinvention (ORR), in accordance with Executive Order 2011-5.

ORR had a mission to ensure that Michigan's regulatory environment was simple, fair, efficient, and conducive to business growth and job creation. The Insurance and Finance ARC was to provide recommendations in a report to the Governor to improve Michigan's existing regulatory climate.

The following recommendations were made:

- Remove significant government-mandated costs that have little benefit to the consumer.
- Remove barriers to innovation.
- Remove barriers to better customer service.
- Make Michigan more competitive with other states.

In October 2011, the Insurance and Finance ARC reported final recommendations to the ORR based in part on recommendations received from the committee and other sources.

In March of 2012, the ORR reported to the Governor 46 recommendations for improving Michigan's insurance and finance regulations. The ORR found that the overall regulatory climate between OFIR and the banks, credit unions, and mortgage companies of Michigan is healthy. However, the ORR did identify a few items that could improve the regulatory climate further.

The ORR found that there were several regulations which were preventing Michigan insurers from being competitive; suggestions were offered to streamline the business of insurance by eliminating requirements not present in other states. These requirements added cost for consumers without adding any value.

The ORR recommendations included:

- Amend the Insurance Code to remove the requirement that insurers annually provide a detailed booklet to their policy holders describing their rating process. Instead, require insurers to provide a brief summary of that information with each bill and provide detailed information upon request.
- Amend the Insurance Code to allow insurers to use rating factors other than those listed in statute, as long as they reflect reasonably anticipated reductions or increases in losses or expenses. The Code allows an insurer to use classifications and territorial base rates with respect to auto and home insurance. Classifications for auto and home insurance may be based only on factors prescribed in the Code. Currently, an insurer may use other factors, subject to the same conditions, in establishing and maintaining a premium discount plan.

After a review, the Governor asked ORR and OFIR to work toward implementing many recommendations.

The following information reflects some of the accomplishments of OFIR from October 1, 2011 to September 30, 2012:

- Many changes were introduced in the House and Senate to amend the Insurance Code to streamline the business of insurance by eliminating regulatory burden and level the playing field for the insurance industry and reduce insurance cost to the consumer.
- Michigan is the only state to require drivers to purchase no-fault automobile insurance with unlimited personal injury protection. Regulatory reforms are needed to Michigan's no-fault law as the cost of coverage puts an undue burden on Michigan citizens and the industry. A Cornell University 2011 study found that Michigan average auto insurance premiums grew 30.5% from 1997 to 2007, while the national average auto premiums rose by 13.7%. As the Legislature and OFIR continues to analyze this market, legislative changes to the unlimited personal injury protection requirement are necessary in order to maintain a sustainable system in Michigan.
- On September of 2012 the Governor proposed sweeping changes to how Blue Cross Blue Shield of Michigan (BCBSM), the largest health insurance provider, is regulated due changes that the Affordable Care Act(ACA) made to health care coverage. The proposal called for BCBSM to convert to a nonprofit mutual insurance company to be regulated under the Insurance Code like all other health insurers in the state and level the playing field for BCBSM.



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